



Name: The Tech Council of Australia

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1. Support business investment through corporate tax reform

1. What features of the Australian business environment have encouraged or restrained investment over the past 10 years?

Australia's ability to support the emergence of globally competitive technology companies has grown markedly over the past two decades. Today, Australia is home to more than 100 tech firms valued above A\$100 million, including at least 28 unicorns—a level of success virtually absent at the turn of the millennium. This progress has not occurred by accident. Targeted policy measures—most notably the Venture Capital Limited Partnership (VCLP) and Early Stage Venture Capital Limited Partnership (ESVCLP) regimes, along with the R&D Tax Incentive—have played a catalytic role in establishing a viable investment architecture for high-growth firms. These have been reinforced by the maturation of private capital markets, particularly the emergence of a more sophisticated venture and growth equity ecosystem.

However, while the early-stage environment has improved, structural challenges continue to inhibit capital formation and business investment at later stages of the growth cycle. Australian tech firms founded between 2013 and 2015 secured Series B funding at rates comparable to their U.S. counterparts. Yet, beyond this point, the divergence is stark. Domestic late-stage capital remains scarce, institutional investor participation is thin, and the IPO pipeline has narrowed. These dynamics push high-potential firms offshore in pursuit of capital and listing opportunities, undermining Australia's capacity to retain economic value and sovereign capability.

A key barrier is the underdevelopment of the domestic scale-up environment. The ESVCLP regime, while instrumental in growing the early-stage ecosystem, no longer aligns with the scale and maturity of the companies it helped to foster. Average deal sizes have grown significantly over the past decade, and more firms are remaining private for longer. As a result, many companies exceed the A\$50 million revenue threshold well before reaching IPO-readiness—yet lose eligibility for concessional tax treatment at a point when continued investment is most needed. This has created a funding gap in which local capital is structurally disincentivised from supporting follow-on growth.

The investment climate has also been unsettled by ecosystem shocks. COVID-era funding cuts saw numerous incubators and accelerators suspend operations, and while states such as Victoria and Queensland have rebuilt programs, capacity in other jurisdictions remains subdued. At the same time, the closure of the Significant Investor Visa channel removed a specialised conduit through which high-net-worth migrants had been required to allocate a share of their capital to local VC funds. Its withdrawal has left a vacuum in specialist investment flows, particularly for funds that anchor emerging managers and support high-risk, high-growth investments. There is a strong case to revisit the program with more rigorous targeting, ensuring it reinforces Australia's

strategic investment priorities. These factors collectively restrain the pipeline of new investible companies and the depth of later-stage funding available to them.

2. What elements of the corporate tax system encourage and/or discourage investment and risk-taking?

Australia's tax framework contains several focused levers that actively promote early-stage risk-taking. The refundable R&D Tax Incentive (RDTI) is still the most powerful cash-flow bridge for pre-revenue firms, while Venture Capital Limited Partnerships (VCLPs) and Early-Stage VCLPs (ESVCLPs) reduce the after-tax downside for investors and anchor a vibrant seed-to-Series A market. Reforms to employee share-scheme (ESS) rules have made it easier and more attractive for start-ups to offer equity to their employees, but because unlike other forms of remuneration shares issued to staff are not deductible to the employer, the same remuneration is effectively taxed twice—once at the company level and again in the employee's hands—undermining ESOPs as a true talent-incentive tool.

The RDTI's underlying conception of what counts as innovation is increasingly misaligned with contemporary digital development. Its “core versus supporting” taxonomy was crafted for linear, laboratory-based science and struggles to recognise the rapid, iterative experimentation inherent in software, AI and data-analytics breakthroughs. Continuous deployment, A/B testing and model tuning rarely fit the scheme's 1980s-era categories, sending an unintended signal that the tax system prizes tangible lab work over code-based innovation and discouraging firms from locating frontier digital R&D onshore.

A further constraint on scaling companies is the static A\$50 million ESVCLP asset cap. Deal sizes have doubled over the past decade, and companies routinely remain private into Series C or D, yet the threshold has never moved. Once a firm breaches the cap, concessional status disappears, domestic follow-on capital retracts and founders are nudged offshore. Reforming this cap—or phasing its removal—would restore the intended risk-reward balance and support Australia's next wave of scale-ups.

3. Which parts of the corporate tax system do you find the hardest, or most time or cost-intensive to comply with? How could the compliance burden of the business/company tax system be reduced?

For many fast-growing firms, navigating the employee share-ownership framework has quickly become one of the most burdensome compliance tasks. Under the start-up concession, administrators must track multiple resale restrictions for employees offered equity at different times, ensuring that shareholdings cannot be sold until after three years or earlier cessation of employment. If a sale event occurs within three years allowing shareholders to sell some of their shares, the tax incentive creates an incentive for the employee to cease employment in order to be free of the sale restriction and participate in the sale. Creating an incentive to leave is the opposite of the usual intention of an employee share scheme, which is to retain key talent.

A solution could be to modify the sale restriction so that employees can sell their shares in less than 3 years at an earlier liquidity event, a sale of business or shares of greater than 50%. Right now, employees with an ESOP face more restrictions in selling their shares than typical shareholders.

Valuation obligations impose a second layer of complexity. Because no universally

recognised methodology exists for unlisted equity, every new grant requires an independent expert opinion to determine “fair market value”, which can cost tens of thousands of dollars for bespoke assessments. The combination of legal fees and valuation-consultant invoices creates a recurring cost center that scales with each fresh round of hiring or option-plan revision and distracts senior management from core growth activities. Providing unlisted companies a simpler and less expensive mechanism to value their business by permitting an accepted valuation method would make issuing equity to employees easier and less expensive for the company. Additionally, If a start-up is acquired by another entity, the concession may cease to be available even if the start-up entity and business remain separate from the acquirer.

A comprehensive review focused on ESOPs would unlock significant administrative efficiencies.

2. Reduce the impact of regulation on business dynamism

1. What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

The Productivity Commission’s 2024 Competition Policy Review identified payments reform as a key productivity opportunity, estimating that increased use of low-cost payment rails—particularly the New Payments Platform (NPP)—could deliver up to \$1.6 billion in annual productivity gains. These benefits stem from faster, more cost-effective transactions and increased competition in payment infrastructure.

The Tech Council of Australia recommends that the Productivity Commission build on this analysis by investigating the economy-wide productivity impacts of potential regulatory changes currently under consideration in the Reserve Bank of Australia’s review of merchant payment costs and surcharging.

As outlined in the Tech Council’s submission to the RBA, some of proposals in the consultation (including debit card surcharging and restrictions on payment service provider competition) could undermine the opportunity to achieve these gains. These includes; reduced incentives for merchants to adopt low-cost NPP-based payment methods (e.g. PayID, PayTo); and Declining competition in payment service provider and card issuing market.

2. How has your regulatory burden changed over time?

The participant did not respond to this question.

3. What regulations do you find time-consuming, overly complex or otherwise constraining business dynamism and resilience? What are the reasons for your answer?

Protracted visa processing severely hampers access to critical talent, especially in specialist areas such as AI, quantum, and advanced software engineering. Delays of six months or more for skilled-migration outcomes force companies to defer project milestones or rely on interim contractors, increasing costs and disrupting continuity. In a global war for tech talent, these bottlenecks constrain workforce agility, erode competitive advantage and impede the timely deployment of high-value R&D teams.

RG 97 currently compels superannuation funds to publish the paper valuations of every

unlisted company they hold via VC or PE mandates. Releasing these can be commercially sensitive for scale-ups. We suggest consideration be given to amending RG 97 to allow look-through valuations of private tech investees to be lodged confidentially and reported to members only in aggregate. This would preserve transparency while avoiding the leakage of sensitive data and protecting a critical source of domestic growth funding. Given the volatility and milestone-driven nature of tech valuations, we also propose the consideration of a specific index suited to the early-stage components of the tech sector.

4. Can you share any specific examples of where you think a regulator has done a good or bad job of understanding and reducing regulatory burden on businesses and why?

ASIC's FinTech Regulatory Sandbox is a standout example of a regulator that has grasped the unique needs of high-growth, innovation-driven businesses. By allowing eligible fintech firms to test novel products and business models with real customers under simplified licensing conditions, ASIC has dramatically reduced the upfront compliance burden that often stifles early experimentation. Rather than forcing startups to navigate the full suite of licensing obligations from day one, the sandbox's graduated approach lets them validate technology, assess consumer risk and iterate on design in a controlled environment.

Cover sheet: Supporting document #1

Kickstarting productivity through the Australian tech sector

Australia has a once-in-a-generation opportunity to lean into structural challenges and reposition our economy for a new global reality. Domestically, we are confronting lower GDP growth, slowing productivity, demographic shifts, and declining workforce participation. Globally, we are navigating a shifting world order alongside the rise of new industries, supply chains, and trading relationships.

The tech sector and digital economy will be central to how we respond, with AI an intrinsic part. The digital economy and broader tech sector offer critical levers for boosting productivity, attracting investment, and building sovereign capability. Now is the time to lean into this opportunity—while we still can—and lay the foundations for the industries of the future.

Australia's prosperity has always tracked the tools we put in people's hands. Each time a breakthrough technology—tractors, container shipping, broadband—has spread through workplaces, output per worker has risen and real wages have followed. Today that dynamic is sputtering: productivity growth is the slowest in 60 years, and if this slowdown persists the average Australian will be noticeably poorer just as an ageing population tightens budgets.¹

At its core, productivity is about doing more with less. Efficiency gains matter—but history shows the biggest leaps come when those savings are paired with entirely new sources of value. True productivity growth unlocks fresh opportunity as much as it trims inefficiency.

Australia's tech sector can drive this next wave of productivity growth. Whether it's AI that clears hospital-imaging backlogs and frees clinicians for complex care; precision-agriculture platforms that combine IoT sensors and analytics to help farmers launch premium, sustainable-produce lines; or fintech marketplaces that let small businesses instantly access microfinance and expand into new export markets—these are tools that expand what Australians can accomplish.

The tech sector is deeply intertwined with almost all sectors of the national economy, meaning strong economic fundamentals are in the sector's direct interests. Further, the success of the tech sector in Australia directly relies on settings that support innovation and tech adoption, access to capital, access to talent, and fit-for-purpose regulation.

We welcome the Productivity Commission's (PC) Productivity Review as a chance to co-design a growth-led agenda that keeps Australia globally competitive. In particular, we support the five reform areas identified by the Commission and commit to developing actionable, targeted and impactful proposals in each domain. The Tech Council looks forward to ongoing engagement with the Commission and Government to advance Australia's productivity agenda.

¹ Treasury, *Intergenerational Report* (2023).

Technology investment can drive productivity growth across our economy

We strongly support the development of policy options that will incentivise investment and drive innovation across the economy. Australia enters this decade at a pivotal juncture. R&D investment has fallen from 2.1% of GDP in 2011 to 1.7% today, and the long tail of the mining boom is receding. The next phase of national prosperity will depend on how we apply technology and innovation—not only to lift productivity in traditional strengths in mining, agriculture and manufacturing, but to pioneer new frontiers where Australian ideas are already leading, from AI to quantum.

Australia's tech investment – defined as the sum of R&D and tech adoption spending – is currently equivalent to 3.9% of GDP. That's equivalent to \$88 billion in total investment, or \$3,400 per capita.²

Based on existing trends, this figure is forecast to fall to 3.5 per cent of GDP by 2030 due to the ongoing decline of R&D spending as a share of GDP and a lack of growth in tech adoption investment. Our modelling suggests that this decline would cost Australia around \$8.2 billion dollars in 2035 alone and a total of \$25.3 billion dollars between now and 2035 in foregone productivity benefits, relative to maintaining our current level of tech investment.

Higher levels of tech investment would deliver substantial benefits to the Australian economy. Lifting tech investment to 4.6 per cent in the medium scenario modelled would contribute an additional \$39 billion to GDP from productivity gains in 2035. Going further to lift tech investment to 6.9 per cent would contribute an additional \$167 billion to GDP by 2035.

Accelerating businesses' tech adoption has practical benefits for the businesses creating this uplift. ASX200 firms that actively invested in tech adoption were more likely to survive and grow compared to average firms across 2005-16, and small businesses actively adopting tech saw their revenue grow 3.5pp faster and their headcount grow 2.2pp faster than other small businesses according to the Office of Innovation & Science Australia.

Turning around Australia's productivity performance could be driven by higher tech investment, which will require us to address barriers to lifting R&D and tech adoption. Across both measures, we forecast that the uplift will need to be undertaken by business but Government also has an essential role to play as a policymaker and strategic investor.

Tech-driven productivity through building human capital

Improving productivity and Australians' wellbeing hinges on ensuring workers have the skills to seize opportunities created by more productive uses of capital, and we strongly support pillar 2 - to support Australia's workforce through a flexible post-secondary education and training sector.

The tech sector still faces a systemic shortage of workers, despite entry wages 32 percent above the national average, a gender pay gap half the size of comparable sectors, and

² Tech Council of Australia, *Lifting Tech Investment in Australia* (2024).

VET-trained workers earning 35 percent more than their peers. This disconnect underscores the need to align training and migration systems with real-time industry demand.

Part of the answer lies in understanding the pace of technological change and how it requires similarly innovative training methods and pathways. Australian workers increasingly rely on flexible, non-traditional models—employer-delivered programs, private providers and self-directed upskilling—that can adapt more quickly than formal qualifications. However, these pathways often go unrecognised by public systems and lack formal credentials to give students confidence in their choice.

The Tech Council has consistently advocated for reforms that improve the flexibility, responsiveness and recognition of these training models, including:

- **Recognition of prior learning (RPL) for unaccredited, skills-aligned training**, so workers' demonstrated capabilities count toward formal certification.
- **Incentives for hybrid and employer-led models**, such as digital apprenticeships and modular training, to ensure curricula keep pace with evolving technology needs.
- **Credit-transfer systems** that enable seamless movement between VET, higher education and work-based learning, allowing individuals to build on micro-credentials and stackable certificates as their careers evolve.

By aligning public support and certification with these flexible pathways—and pairing them with proactive skilled-migration policies that attract global talent while facilitating knowledge transfer—Australia can equip its workforce to adopt cutting-edge tools and drive productivity across every sector.

Fit-for-purpose regulation in the digital age

Smart regulation provides guardrails without dampening momentum. To secure Australia's position as a global leader in technology, the regulatory environment must be clear, coordinated and strategically aligned across the entire economy to accelerate innovation and investment (while continuing to safeguard public interests). We strongly support the PC's focus on reducing the impact of regulation on business dynamism, and creating a regulatory environment which supports innovation.

There is a significant number of regulatory reforms underway, without sufficient clarity as to scope or timing of the expected changes. This uncertainty risks stalling investment and delaying the adoption of transformative technologies, without which Australia may lose out on capturing the next wave of productivity gains.

It is therefore critical that the current regulatory agenda is proportionate and focused towards specific harms, rather than responding reflexively to uncertainty. At a minimum, this requires:

- Appropriate regulatory settings which support the growth of general-purpose technologies such as AI, quantum and blockchain that have economy-wide productivity potential;

- Cautious implementation of sector-specific regulation, which must be limited to addressing clear regulatory gaps that are likely to result in specific harms and which are aligned with reputable global standards;
 - In the context of AI: (1) removing key structural barriers to innovation such as copyright restrictions which prevent use of data in large-scale computation, and (2) providing early certainty on AI regulations; and
 - More broadly, adjusting Australia's tax settings to reward investment in innovation and technology (e.g. by improving the operation of ESOPs and changing depreciation schedules to improve the tax treatment of intangibles).
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These steps are not radical; they simply align policy with how value is created in a modern economy. If we choose that path now—lifting R&D, rewarding adoption, equipping workers and modernising rules—Australia can keep living-standards growth on the upward trajectory that has defined us for a century.

Prosperity, productivity and technology are now a single policy conversation. The Tech Council is ready to work with Government and industry partners to turn that insight into measurable national progress.

Artificial Intelligence: A Modern Productivity Case Study

Australia faces a once-in-a-generation productivity leap: artificial intelligence. As the world races to deploy AI, our economic readiness—our investment, skills and infrastructure—will determine whether we secure its benefits. Tech Council modelling shows that, with accelerated adoption and timely reforms, Australia could add \$115 billion in output and create 200,000 AI-related jobs by 2030—targets we can only achieve by preparing our economy and society today.

AI is a fitting case study of how a modern productivity agenda must weave together the PC's five pillars—capital, skills, data, innovative health regulation and clean energy—to capture tomorrow's gains before our peers do, rather than risk being left behind.

To begin with, capital and skills must advance in tandem. Capital needs to flow freely to AI startups—streamlining foreign-investment approvals—while tax settings that reward intangible investment and prudent public procurement de-risk early projects. Equally important, rapid, modular upskilling—AI bootcamps, micro-credentials and digital apprenticeships—will retrain one in three Australians within three years and unlock substantial economic gains.

At the same time, data and regulation jointly unlock AI's potential in sectors like healthcare. Data and digital infrastructure underpin every AI system. Clear, proportionate data-privacy rules aligned with global norms—and expanded digital networks—will let firms build models on high-quality, locally sourced information. Delivering AI in regulated settings such as healthcare—through faster approval of diagnostic software and pilot funding for predictive analytics—represents one of the greatest near-term productivity gains.

Finally, large-scale AI workloads demand reliable, renewable-powered data centers in key strategic locations. Investing now in cheaper, cleaner energy ensures we don't trade short-term productivity for long-term carbon targets.

A modern productivity agenda must weave together capital, skills, data, innovative regulation and clean energy if Australia is to capture AI's gains rather than watch them pass us by. The Tech Council stands ready to partner with Government and industry to make that vision a reality.